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Incentives may keep some raising tobacco
Philip Morris strategy entices growers
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SHELBYVILLE - Savoring a mild spring day, Ray Tucker didn't seem to mind that he had some long days of field work ahead to get his biggest burley tobacco crop in the ground after a rainy stretch put him behind.

Making up for lost time, the sixth-generation Shelby County tobacco farmer put his three-man crew to work setting young burley plants in a 15-acre field before he headed off to prepare a nearby plot for the next day's planting.

Tucker, 30, has fully embraced his family heritage -- cutting back his lawn-care business so he could triple burley production to 40 acres. Tucker is putting his faith in a free-market system that replaced Depression-era production and price controls after Congress passed a $10.1 billion tobacco buyout in 2004.

"To me, it's a matter of being happy, doing what I love doing," he said.

Agricultural forecasters in March projected burley acreage would drop to 58,000 acres, but that was before Philip Morris USA, the nation's largest cigarette maker, came out with price incentives to entice its contract leaf growers to boost burley production.

The pricing strategy seems to have changed some minds and some predict the incentives have spurred some production.

"I think the incentives have encouraged some growers to increase (production) and some growers not to get out," said Paul Hornback, another Shelby County tobacco farmer and Tucker's father-in-law.

Last year, those Kentucky burley farmers who stuck with tobacco after the buyout raised 143.5 million pounds of leaf on 70,000 acres -- the state's smallest burley crop since 1927.

Prices averaged an estimated $1.56 a pound, according to the Kentucky field office of the National Agricultural Statistics Service. Prices were in the range of $2 a pound when price supports existed.

During the heyday of Kentucky's burley industry, growers produced 470 million pounds in 1997, bringing in cash receipts of $730 million.

University of Kentucky tobacco production specialist Gary Palmer has predicted 72,000 acres of burley acreage this year, based on a survey of county agricultural extension agents.

"There are going to be some more people going out and some places going down" in production, Palmer said. "But there's quite a few people that are gearing up to do a little bit more."

Philip Morris spokesman Bill Phelps wouldn't give details of the incentives but said the company was pleased with the number of contract signups. He said the company was interested in recruiting more farmers.

"We think there are opportunities for growth in the supply of burley," he said. "And we've made changes to our pricing program that we believe will be attractive for farmers who want to take advantage of those growth opportunities."

R.J. Reynolds Tobacco Co. spokesman David Howard said the company had signed enough contracts to meet its anticipated burley demand.

He wouldn't disclose his company's contract offers or its response to Philip Morris' incentives.

"We believe we offer a very good deal with our growers and one that they are happy with," Howard said.

Hornback said the Philip Morris per-pound incentives include 3 cents for signing contracts by mid-April and an additional 6 cents for delivering all the pounds growers signed up to produce. Farmers who increase production by 25 percent over last year's contracted pounds can get an extra 30 cents a pound on that additional leaf only, said Hornback, a Philip Morris grower. The incentives cut off after a farmer reaches 125 percent of last year's contracted pounds, he said.

Tucker, a Philip Morris grower, made money off last year's crop, thanks to irrigating to offset a dry spell, and has high hopes for his latest crop.

Tucker doesn't miss the safety net of the government price supports, in part because it came with production limits.

Under that system, some farmers had to pay high lease prices to obtain the right to non-growers' production quotas -- a cost that no longer exists.

"If it wasn't for the buyout, probably we would have still been raising the same amount that we were," Tucker said. "There's just more room for profit margin."

Tucker acknowledged that the buyout puts farmers "at the mercy of Philip Morris and the other tobacco companies."

He worries whether the companies will take all the leaf grown under contract in years of bumper crops.

He said the uncertainties facing growers put a premium on sound management to limit costs and the ability to grow quality leaf the companies will want.

"I just feel like there's always going to be tobacco grown, and there's always going to be a demand for it," he said.

Tucker said he would have increased his production this spring no matter what, "It just makes it a whole lot easier with the incentives."

For him, it was a lifestyle decision -- "I was born and raised a farmer. It's in my blood." Some of the land he farms has been owned by his family since 1849.

He seemed unfazed by a recent string of cool, rainy days that forced him to adjust his planting schedule.

On a recent day of planting, Tucker and his field hands had a mild breeze and worked under clear blue skies.

Tucker was already thinking ahead to a few months when the tobacco plants, now just a few inches tall, would be head high.

"It gives you a good feeling at the end of the year that you made that plant grow," he said. "It's almost like watching my kids grow up."